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SUBJECT: Argentina: G7-Plus Ambassadors on Economy, Protectionism and GoA G-20 Posture

Ref: Buenos Aires 230
Buenos Aires 164

Summary

¶1. (SBU) Local G7-plus representatives were upbeat on the ability of crisis-tested Argentina to weather the current economic downturn, at least through 2009, but complained about growing Argentine protectionism via non-automatic license non-tariff barriers. Ambassadors also agreed on the importance of direct contact by leaders with President Christina Fernandez de Kirchner (CFK) to help secure her constructive role in the G-20 Summit. At a US-hosted coffee March 11 (two days before President Obama called CFK), UK ambassador confirmed PM Brown will meet President Fernandez de Kirchner on the margins of the G-20 Summit and emphasized the importance that the Summit convey a sense of shared conviction and momentum to boost global consumer confidence. The group agreed that the GoA appears aware that an Argentina perceived as politically conflictive could be expelled from the G-20 or see crisis-related action shift to other fora that exclude it. Ambassadors also agreed that GoA key objectives for the G-20 Summit are narrowly focused on IMF reform and emerging market access to new low- or no-conditionality IMF credits, priorities linked to an internal GoA debate on whether and how to use IMF reform as a face-saving vehicle to reconcile with the Fund. On G-20 trade issues, there was consensus that the GoA will maintain its hard-line position that Ag-NAMA linkage and asymmetrical North-South NAMA tariff reductions are quid pro quos to re-launching Doha Development Round talks. End Summary.

¶2. (SBU) Ambassador hosted a March 11 coffee for G7 plus Spain and Netherlands Ambassadors to review the impact of the global economic crisis on Argentina and to discuss the role Argentina will play at the upcoming G-20 London Summit April 1-2. Joining were British Ambassador Shan Morgan, German Ambassador Gunter Rudolf Kniess, Japanese Ambassador Hitohiro Ishida, Spanish Ambassador Rafael Estrella Pedrola, French Charge Claudia Delmas-Scherer, E.U. Charge Carlos Gimeno Verdejo, Canadian Charge Rejean Tessier, Italian Ambassador Stefano Ronca, Dutch Ambassador Henk Soeters, DCM, and EconCouns.

Crisis Impact on Argentina & Trade Protectionism

¶13. (SBU) UK Ambassador Morgan noted that, at a gathering she hosted earlier that day for Argentine industrialists and economists with ties to the UK, there was broad agreement that an Argentina was somewhat insulated from the first stage of the crisis (due to the relative isolation of its domestic financial sector from global capital markets) and would now experience a "normal" recession, in contrast to the economic and social devastation that Argentina experienced in its earlier 2001/2 crisis. Most thought that the GoA would meet its 2009 debt maturities by completing debt swaps, using pension fund resources, and tapping central bank reserves or state-owned bank deposits, if necessary. There was general concern among her interlocutors on the precipitous decline in Argentine commodity exports and linked drop in export tax revenues, the potential for another bout of capital flight if the central bank fails to adequately manage a gradual depreciation of the Argentine peso, as well as increasing informal and formal sector unemployment and its potential to generate social unrest. Nevertheless, she said, industrialists felt 2009 would be a year of "caution, not contraction," with no major layoffs planned.

¶14. (SBU) Italian Ambassador Ronca noted his embassy had also recently convened Italian industrialists doing business in Argentina. They were similarly upbeat on the ability of crisis-tested Argentina to weather the current economic downturn but complained about growing Argentine protectionism via imposition and strict enforcement of non-automatic license non-tariff barriers (NTBs) that has made dealing with the GoA bureaucracy "more painful than usual." EU Charge Verdejo highlighted growing EU company

concern about Argentine protectionism, with NTBs that originally targeted Chinese and Brazilian imports now directly impacting EU products. He spoke of a "mafia-style" GoA approach to balancing its trade account whereby EU exporters to Argentina are being asked to present their export plans/projections and are then directly to cut them by 20%. New non-automatic export license requirements, he said, appear to be added to the GoA NTB list each time the Argentine industrial union (UIA) complains about specific product competition. He said the EU had been talking to the US and others about a complaint at the WTO. He also noted that the Brazilians had concluded that Argentina was breaking WTO rules but had opted to find a bilateral solution to its problems.

¶15. (SBU) German Ambassador Kniess commented on a mercantilist GoA worldview where all economic policies are viewed through an export filter. He called "crude" GoA efforts to attempt to influence individual foreign exporter policies. Ambassador Wayne noted anecdotal reports from U.S. exporters that their goods manufactured by Chinese-based affiliates were being held up by Argentine NTBs. Japanese Ambassador Ishida noted growing complaints of delays in processing by Japanese exporters. Spanish Ambassador Estrella said Argentine protectionist measures "shoot themselves in the foot" insofar as imposing NTBs on items with no or small domestic manufacturing bases (e.g., high performance tires) simply increase domestic consumer costs.

UK on G-20 Preparations, UK Goals as Host

¶16. (SBU) Ambassador Morgan reported on recent meetings with GoA officials on G-20 themes by UK Financial Secretary Steven Timms and Foreign Office Minister Lord Malloch Brown (Ref A). A 27-point action plan on stabilizing financial markets will be a centerpiece of discussions at the March 15-16 G-20 Finance Ministers meeting in London, she said, along with a review of various IMF and MDB reform proposals. Prime Minister Gordon Brown is keen, she said, that the overall G-20 message include a commitment to sustainable low-carbon global growth, as well as measures to protect the poorest nations from the impact of the current crisis. From the UK perspective, Morgan said, as important as having G-20 heads of state come to agreement on concrete cooperative measures to address the current financial market crisis will be their ability to convey a sense of shared conviction and momentum to boost global consumer confidence. She emphasized there is no/no hidden UK agenda or blueprint for the G-20 Summit and that the G-20 consultative process (including the

G-20 Finance Ministers meeting) and a parallel series of regional meetings taking place in the run-up to the summit are working to define priorities and build consensus.

¶7. (SBU) Morgan confirmed that PM Brown will hold a bilateral with President Cristina Fernandez de Kirchner (CFK) during the London Summit. She commented that, while it is difficult to predict the tone of CFK's London intervention, her participation will offer Argentina valuable exposure to global G-20 leadership.

¶8. (SBU) EU Charge Verdejo noted GoA concern that an Argentina perceived as economically diminished and politically conflictive could be "expelled" from the G-20. Italy's Ronca expressed his government's view that the G-20 grouping is an unwieldy, outmoded legacy of the global economic conditions and rankings that obtained when it was created in 1998. Stressing the importance of ensuring that other groupings provide input, he highlighted the February discussion between Italian Premier Silvio Berlusconi and British PM Brown on coordinating the efforts of the G-8 and the G-20 on combating global recession (Italy holds the G-8 presidency for 2009 while Britain holds the rotating chair of the G-20). Ronca also reviewed the Heiligendamm Process launched at the German-hosted G-8 summit that was aimed at intensifying cooperation between the G-8 and G-5 emerging countries Brazil, China, India, Mexico and South Africa. At the upcoming G-8 summit that Italy will host in 2009, Ronca said, Italy will invite the G-5 as well as Egypt to participate.

Argentina's Objectives at the London Summit

¶9. (SBU) Participants agreed that GoA key objectives for the G-20 Summit are narrowly focused on IMF reform and joint action to regulate tax havens. Ambassador Wayne noted divergent GoA messages coming out of the Central Bank (seeking low-conditionality IMF credits) vs. those from the Presidency and Foreign Ministry (demanding no-conditionality IMF credits). Ambassador also noted debate within the GoA over whether and how to reconcile with the IMF, with considerable domestic media speculation that the GoA, deeply in need of new international credits, will attempt to use IMF reform as a face-saving vehicle to access Fund credits. The Spanish ambassador said that CFK was somewhat unpredictable on these issues, noting she had, for example, labeled Delaware as a tax haven to be controlled in a conversation with PM Zapatero. EU Charge Verdejo noted considerable EU common ground with Argentine positions, including on the need for expanded emerging market participation in IFI decision making and on the need to definitively address tax havens.

¶10. (SBU) On trade issues, EU Charge Verdejo said the GoA has made clear it will maintain its hard-line position that Ag-NAMA linkage and asymmetrical North-South NAMA tariff reductions are quid pro quo to re-launching Doha Development Round talks. Ambassador Wayne noted the disconnect between the GoA's overtly protectionist bent in support of domestic manufacturing interests and the President's recent exhortation to Argentine ambassadors abroad to pry open foreign markets to Argentine exports. German Ambassador Kniess commented on a mercantilist GoA worldview where all economic policies are viewed through an export filter. He called "crude" GoA efforts to attempt to jawbone individual foreign exporters to curtail volumes shipped to Argentina. Verdejo hoped that a strong message could be sent to the GoA in the G-20 on the need to respect its Washington G-20 stand-still pledge on protectionist measures.

UK on Lack of GoA Environmental Awareness

¶11. (SBU) Ambassador Morgan commented on the narrow environmental perspective taken by the GoA: other than a focus on the cleanup of the metropolitan area's massively polluted Riachuelo river basin, she said, there is little or no political or public awareness of global environmental priorities such as climate change. The UK is funding a study on the domestic impact of climate change in Argentina, and Morgan hoped that the report's examination of climate

change's potential impact on key domestic sectors (e.g., Argentina's successful and growing wine industry) will help raise public awareness. German Ambassador Kniess noted that Argentina is supporting the International Renewable Energy Agency (IRENA) established in Bonn in January 2009.

Comment: Work on CFK

¶12. (SBU) G7-plus Ambassadors agreed on the value of Argentina's participation in the G-20 summit as a way to expose the parochial Kirchner administration to a broader worldview on global economic linkages and inter-dependence. They also agreed, however, that convincing mercantilist Argentina to avoid the temptations of protectionism and to reaffirm its earlier G-20 pledge to refrain from raising new barriers to trade in goods and services will be a significant challenge in London. There was a general consensus that most senior GoA officials (except for the MFA's Trade Undersecretary) see the need to play a contributing role, but that there was considerable uncertainty over CFK's performance: thus the necessity of engaging her to help build a useful outcome in London. (President Obama's March 13 call to CFK was just the kind of engagement suggested.)

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